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On the challenges of EU's food sector

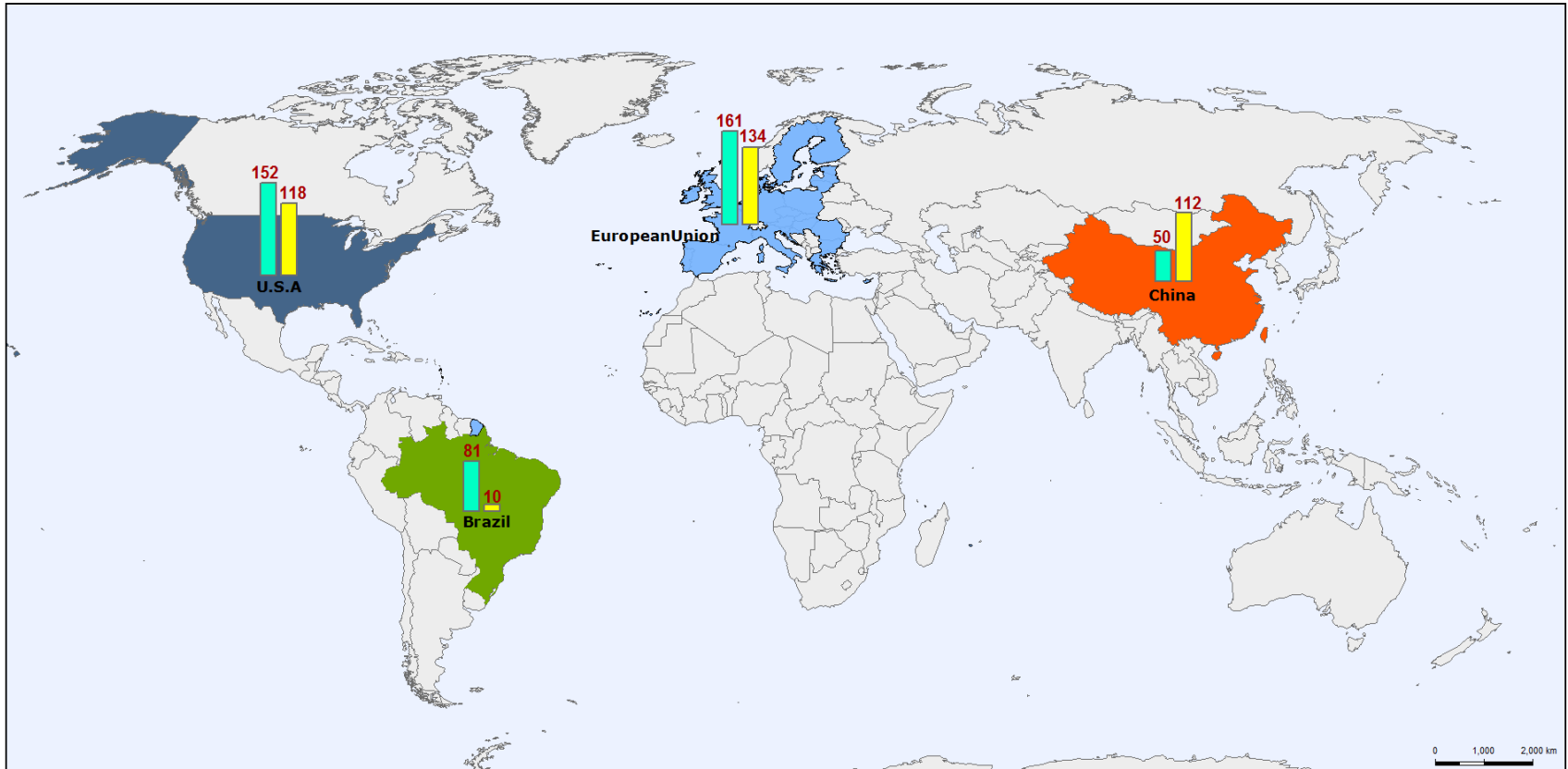
Roundtable "For a competitive Primary Food Sector in the European Union"

***European Parliament
Brussels, 20 June 2016***



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Director***

***Economic analysis, perspectives and evaluations; communication
DG Agriculture and Rural Development
European Commission***

These main agro-trade flows...



Agri-Food Trade (Avg 2013-2015 in billion US\$)

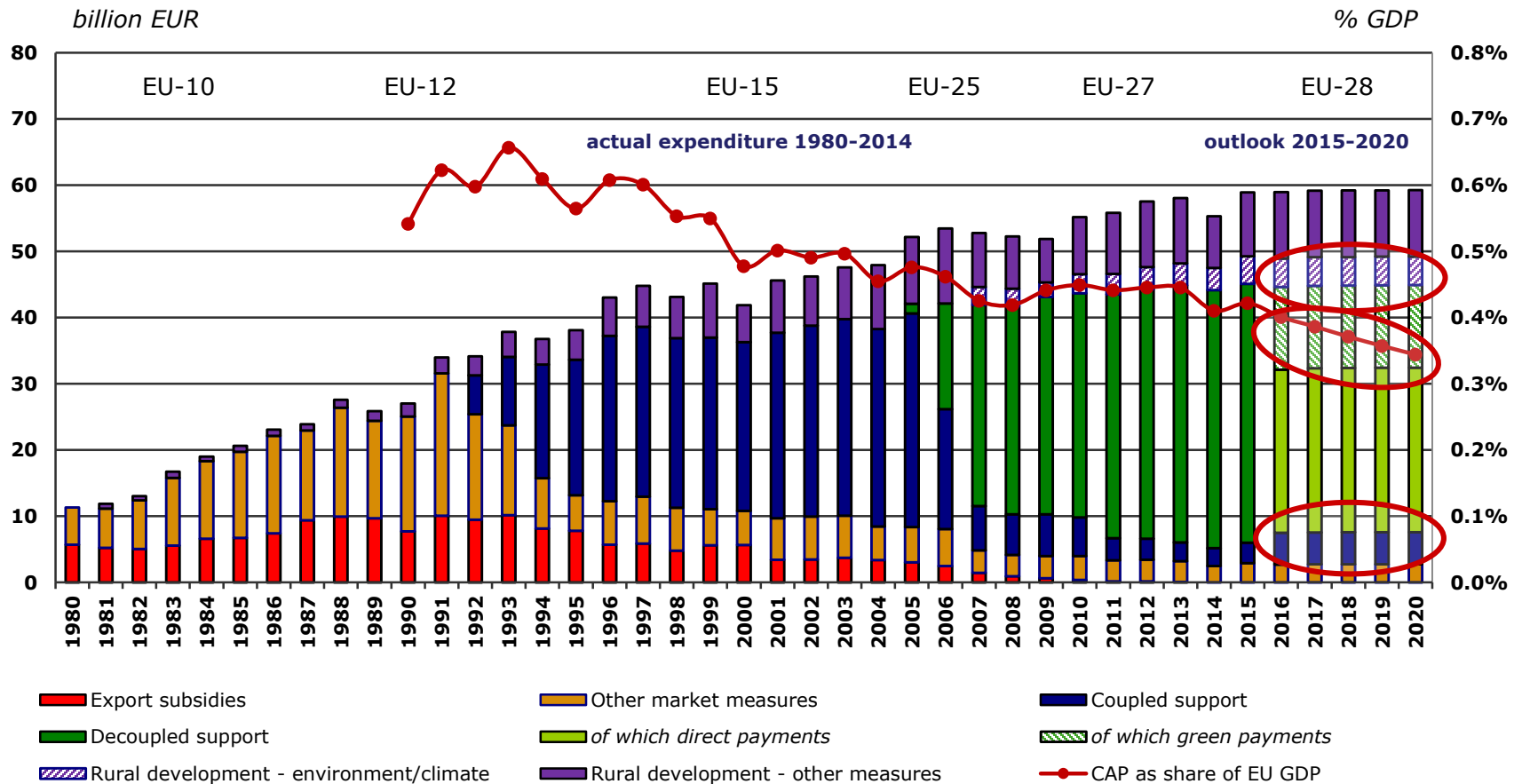
 Exports
 Imports

Source: COMEXT, GTA
 Cartography: DG AGRI GIS-Team 04/2016

Map Projection World: Eckert III - Map Scale 1:110.000.000

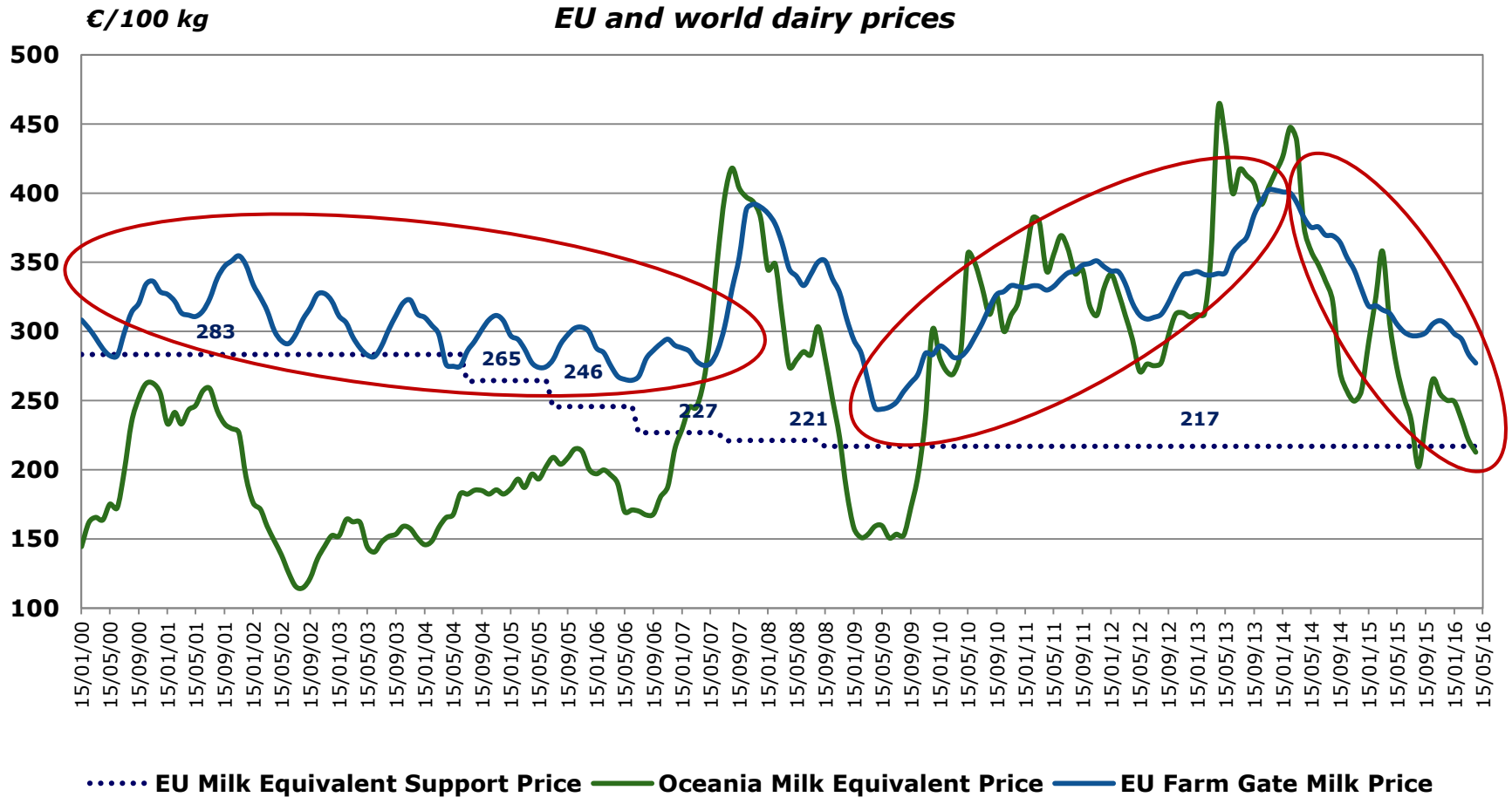
© EuroGeographics Association for the Administrative Boundaries
 Note : The borders of the map does not necessarily represent the official position of the EU. The map has only a statistical value.

...have their origin in the CAP reform path (1980-2020)



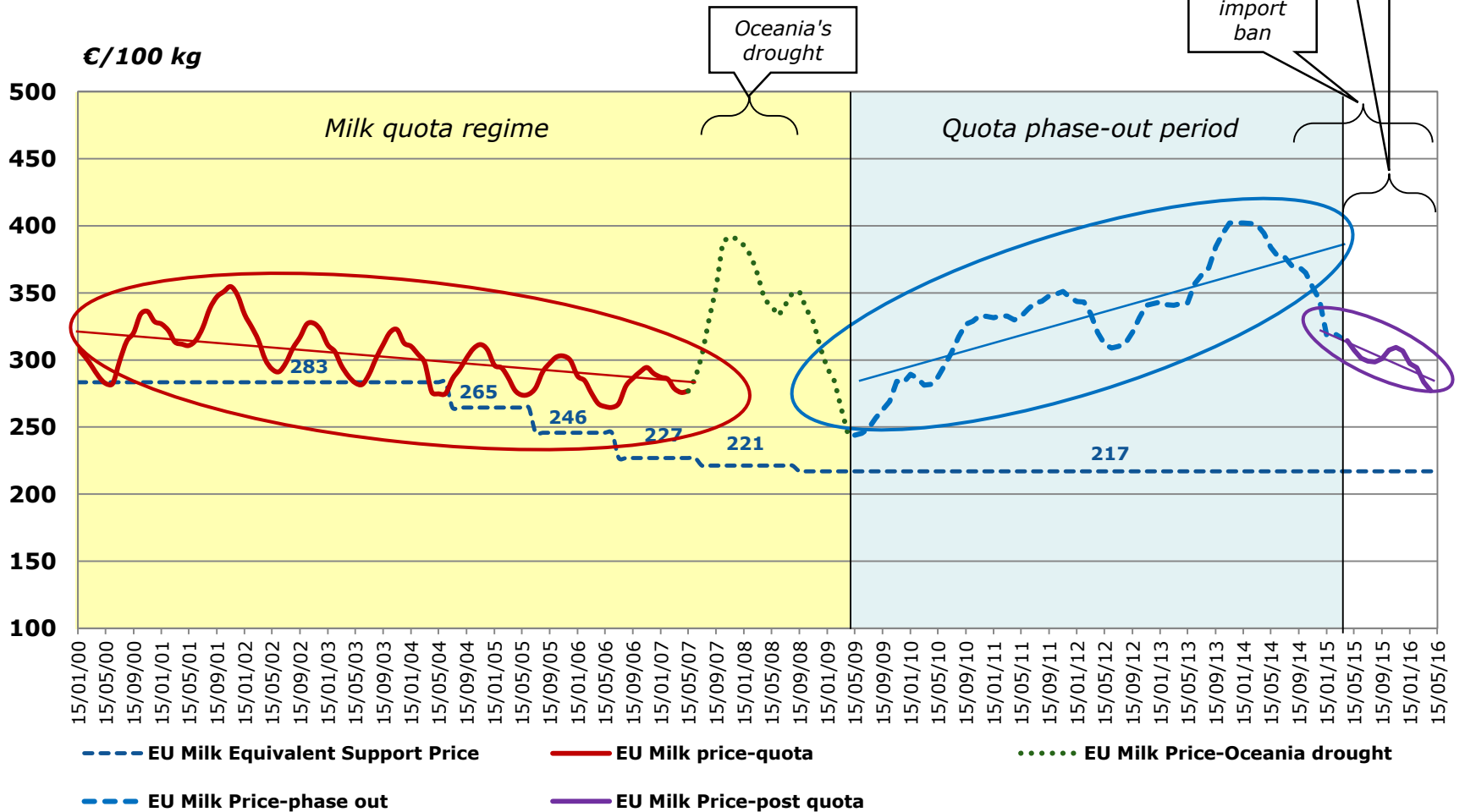
Source: DG AGRI.

Yet recent dairy price challenges...



Source: DG Agriculture and Rural Development calculations

...point to more complex linkages



Source: DG Agriculture and Rural Development calculations

Main uncertainties...

The macroeconomic picture

- The persistence of sluggish GDP growth – now also expanding to emerging economies
- The exchange rate volatility – leading to price declines appearing as price increases for others
- The long-term price level of crude oil - will disinvestment hit supply post-2020?

The demand side picture

- Population dynamics are characterised by significant asymmetries in trends
- Dietary patterns also reflect different, often counter-intuitive developments
- Diverging trends and cross-cutting effects exist within the same group of commodities

The supply side picture

- The wider energy picture – not just crude oil but also impacts from natural gas etc.
- Short-term and long-term impacts of climatic events, including from climate change
- Diverging productivity patterns (and not just in yields..., e.g. RTD, innovation, etc.)

...generate a new market environment...

The new market environment

- *Commodity markets seem to have returned to more "fundamental" drivers*
- *The commodity "super-cycle" effect of China seems to be over*
- *The impact on price level is more clear than impact on co-movement or on volatility*

The new trade environment

- *Trade in both food commodities and food products will remain strong*
- *Demand in most emerging economies will grow faster than their domestic production*
- *Yet, as always, in agricultural markets the surprise is around the corner...*

The new price environment

- *Despite significant declines, prices are still higher than pre-financial crisis levels*
- *The terms of trade for agriculture may improve some if energy prices stay low, but lost a lot...*
- *Where in-between the highs and lows of the post-2008 situation does the likely price path lie?*

...with common challenges seen from different angles

Agriculture as the 2 % sector

- *Narrow focus on sectorial interests exposes agriculture's low GDP share and overall economic weight*
- *Product-driven concerns are real and justified; yet product-driven responses divide policy objectives*
- *Policy is driven on the defensive to justify its spending, instead of justifying its broader objectives*

Agriculture as the 40 % sector

- *Land use, the new focus of the CAP, addresses both environmental and climate challenges*
- *Wider territorial policy scope brings wider growth and employment links to the forefront*
- *Technology and innovation will determine land-use, climate and environmental performance*

Agriculture as the 100 % sector

- *Food demand-driven policy concerns unify policy focus and reform opportunities*
- *Up-stream, down-stream and horizontal linkages are potentially growth and job enhancing*
- *Technology and innovation will also determine net employment effect across the food chain*

Drivers and relevance for the policy instruments

Pressure from markets – a counter-cyclical or competitive agriculture?

- *Arguments for increased market support will hardly convince a squeezed EU economy*
- *Existing market instruments have limited margin for improvement in their efficiency*
- *Which trade-off between existing measures and risk management is possible and/or desirable?*

Pressure on land use - scrap or re(de)fine “greening”?

- *Land use and climate impacts ignore national frontiers, thus impose EU-wide response*
- *Even if “greening” did not exist, we would need to invent coherence on land use*
- *Are perceived problems with greening is the concept, the scope, or the implementation?*

Link to other EU policies - strengthen or shift CAP’s competitive angle?

- *Investment in the economy of rural areas is mainly linked to the broader food chain*
- *Coherence with other EU funds should address both regional and EU-value added angles*
- *EU food competitiveness starts from the recognition of internal market realities*

And where does the primary food sector fit in all this?

A little bit everywhere...

- *in growth and jobs...*
- *in food quality and sustainability...*
- *in innovation...*

But above all...

- *in safeguarding Europe's real competitive advantage...*

...its diverse and sophisticated food system

Reports and data available at:

http://ec.europa.eu/agriculture/index_en.htm

http://ec.europa.eu/agriculture/policy-perspectives/impact-assessment/index_en.htm

http://ec.europa.eu/agriculture/policy-perspectives/index_en.htm

http://ec.europa.eu/agriculture/markets-and-prices/index_en.htm

Thank you for your attention!